

REPORT ON EXAMINATION AS TO THE CONDITION OF

**FARMERS MUTUAL FIRE INSURANCE COMPANY
OF SALEM COUNTY**

SALEM, NEW JERSEY 08079

AS AT DECEMBER 31, 2009

N.A.I.C. GROUP CODE 0000

FILED

April 5, 2011

**Commissioner
Department of Banking & Insurance**

N.A.I.C. COMPANY CODE 13854

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THOMAS B. CONSIDINE
Commissioner

February 16, 2011

**Honorable Thomas B. Considine
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625**

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

**Farmers Mutual Fire Insurance Company of Salem County
SALEM, NEW JERSEY
N.A.I.C. GROUP CODE 0000
N.A.I.C. COMPANY CODE 13854**

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Farmers Mutual Fire Insurance Company of Salem County will be referred to in this report as the "Company" or "Farmers Mutual".

SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as “NJDOBI” have performed a full scope risk focused examination of Farmers Mutual Fire Insurance Company of Salem County.

This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2009, and addressed the three-year period from December 31, 2006, the date of the last examination. During this three-year period under examination, the Company’s assets increased from \$90,219,533 to \$96,405,084. Liabilities decreased from \$62,217,804 to \$57,742,279 and its surplus to policyholders increased from \$28,001,729 to \$38,662,805.

NJDOBI conducted our examination in accordance with the 2009 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that NJDOBI plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk focused approach is to include ... consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

The Company has adopted an Enterprise Risk Management (“ERM”) framework for proactively addressing and mitigating risks, including prospective business risks. The Company’s Corporate Governance was found to be effective, contributing to its entity level (or monitoring level) controls, including prospective risks.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of ParenteBeard provided an unqualified audit opinion on the fair presentation of the Company’s year-end financial statements based on statutory accounting principles. Relevant

work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

Reinsurance

2006 Examination Report Recommendation

It is recommended by this examination that the Company amend its quota share reinsurance boiler and machinery insurance agreement to remove Salem Insurance Company from this agreement.

Company Response

The Company has amended its quota share reinsurance boiler and machinery insurance agreement.

2009 Examination Review

The Company did comply with this recommendation.

Regulation of Insurance Holding Company Systems

2006 Examination Report Recommendation

It is recommended by this examination that the Company disclose all affiliates on Schedule Y – Part 1 – Organizational Chart in future annual statements in accordance with N.J.S.A. 17:27A-1a.

Company Response

The Company excluded Salem Finance Company from its Schedule Y organization chart after it filed for liquidation in 2006 but prior to it being officially liquidated. The Company will disclose all affiliates on Schedule Y in the future.

2009 Examination Review

The Company did comply with this recommendation.

Inter-Company Agreements

2006 Examination Report Recommendation

It is recommended that the Company submit the Federal Income Tax Sharing Agreement through a Form D filing with the New Jersey Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-4.

Company Response

The Company submitted the Federal Income Tax Sharing Agreement through a Form D filing as listed in the examination subsequent events.

2009 Examination Review

The Company did comply with this recommendation.

Continuity of Operations

2006 Examination Report Recommendation

It is again recommended, as was in the prior examination report, that the Company formalize and test a comprehensive business continuity plan.

Company's Response

We do not have a formal written Business Continuity Plan. We do have a disaster recovery plan documented but are currently working on a formal Business Continuity plan.

2009 Examination Review

The Company has not complied with this recommendation. Please see recommendation in forepart section titled Continuity of Operations.

Taxes, Licenses and Fees

2006 Examination Report Recommendation

It is recommended that the Company report their New Jersey Premium Tax form on a World Wide Premiums basis in future filings.

Company's Response

The Company now reports their New Jersey Premium Tax form on a World Wide Premiums basis. The State of Maryland Premiums are now included with New Jersey to get the total World Wide Premium.

2009 Examination Review

The Company did comply with this recommendation.

Electronic Data Processing Equipment and Software

2006 Examination Report Recommendation

It is recommended by this examination that the Company record all equipment and furniture items under the asset titled Furniture and Equipment and non-admitted this asset as per SSAP No. 19 – Furniture, Fixtures and Equipment.

Company's Response

The Company corrected the two assets listed as electronic data processing equipment to Furniture and Equipment. The Company now records all equipment and furniture items

under the asset titled Furniture and Equipment and non-admits this asset as per SSAP No. 19 - Furniture, Fixtures and Equipment.

2009 Examination Review

The Company did comply with this recommendation.

Bonds and Stocks

2006 Examination Report Recommendation

It is recommended by this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit assets which exceed the basket clause limits at year end.

Company's Response

January 1, 2007 and hereafter the Company is in compliance with N.J.S.A. 17:24-1(g) and non-admit assets which exceed the basket clause limits at year end.

2009 Examination Review

The Company did comply with this recommendation.

HISTORY AND KIND OF BUSINESS

The Farmers' Mutual Fire Insurance Company of Salem County was incorporated under a special act of the New Jersey State Legislature on March 6, 1851 and commenced business on that date.

At December 31, 1994, the Company was authorized under N.J.S.A. 17:17-1 to write the following lines of business: "a", "b", "d", "i", "j", "k", "l", "m", "n" and "o-1". An amendment noted the Company's desire to write only lines: "a", "b", "e", "j", "k", "l" and "o-1".

On July 26, 1995, the Certificate of Incorporation was amended to include Paragraph "o-3" (Mechanical Breakdown).

In 1998, the Company was affiliated with the Mutual Service Office for the Commercial Automobile Line of Business in the State of New Jersey. The Company explained in their Plan of Operation that their marketing effort will be directed toward retail store, servicing and installation, small contractor, church vehicles, and private passenger type owned by a business.

The Company's Charter and Certificate of Authority have been amended numerous times since incorporation.

At December 31, 2006, the Certificate of Authority authorized the Company under N.J.S.A. 17:17-1 to write the following lines of business: "a", "b", "e", "j", "k", "l", "o-1" and "o-3".

The Company sold its affiliate - Salem Insurance Company - to C.B.I.P. Management, Inc. on January 12, 2005. As part of the sale, the Company had to initiate the following closing documents with Salem Insurance Company:

1. Commutation and Release Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County with Salem Insurance Company being the Reinsurer.
2. Commutation and Release Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County with Farmers Mutual Fire Insurance Company of Salem County being the Reinsurer.
3. Loss Portfolio Transfer Reinsurance Contract issued to Salem Insurance Company by Farmers Mutual Fire Insurance Company of Salem County.
4. Indemnity Agreement between Salem Insurance Company and Farmers Mutual Fire Insurance Company of Salem County.

The Company entered into a Stock Purchase Agreement, effective May 12, 2004, with C.B.I.P. Management, Inc. (CBIP) This agreement allowed CBIP to purchase from Farmers Mutual Fire Insurance Company of Salem County the issued and outstanding shares of Salem Insurance Company, Inc., which Farmers Mutual Fire Insurance Company of Salem County owns.

CBIP shall purchase from Farmers of Salem the shares for an Aggregate Purchase Price of \$5,500,000 on the Closing Date of June 30, 2004. The \$5,500,000 shall be payable as follows:

- \$3,100,000 due on the Closing Date of June 30, 2004.
- Four annual payments of \$600,000 totaling \$2,400,000 due one year after the closing date of June 30, 2004.

Since the sale of Salem Insurance Company was not approved by the State of New Jersey until January 10, 2005, the effective date and the closing date of the Stock Purchase Agreement changed to January 10, 2005.

On July 28, 2006, the Company signed a Share Delivery Agreement between the Company, C.B.I.P. Management, Inc. (CBIP) and Progressive Direct Holdings, Inc. (Progressive). The Agreement states that Progressive will pay the \$2,400,000 that is CBIP's outstanding balance remaining in its original purchase of the issued and outstanding shares of Salem Insurance Company that Farmers of Salem owned in the Stock Purchase Agreement.

The Company entered into an Escrow Agreement on November 29, 2006 with C.B.I.P. Management Inc. (CBIP), Salem Insurance Company, Inc. (Salem), Progressive Direct Holdings, Inc. (Progressive) and Duane Morris LLP. This escrow agreement engaged Duane Morris LLP as an Escrow Agent for the purposes of facilitating the exchanges and transactions described in the Share Delivery Agreement and certain other exchanges and

transactions relating to the purchase by Progressive of all of the issued and outstanding common shares of Salem from CBIP.

The Company completed the sale of Salem Insurance Company in 2009.

The Company is a domestic mutual insurer.

The principal office of the Company is located at 125 West Broadway, Salem, New Jersey 08079. The agent in charge upon whom process may be served is Mr. Kent W. Jones, President of the Company.

STATUTORY DEPOSIT

As of December 31, 2009, the Company maintained two securities on deposit with the State of New Jersey, in trust for the benefit and security of the policyholders of Farmers Mutual Fire Insurance Company of Salem County.

<u>State</u>	<u>Security</u>	<u>Par Value/Number of Shares</u>
New Jersey	U.S. TREASURY NOTES, 4.875%, due February 15, 2012	\$160,000.00
New Jersey	GOLDMAN SACHS ILA FEDERAL PORTFOLIO	<u>17,009.57</u>
Total		\$177,000.57

TERRITORY AND PLAN OF OPERATION

At December 31, 2009, the Company is licensed and authorized to transact business in New Jersey, Maryland and Delaware. The Company conducts business actively in New Jersey and Maryland. New Jersey offerings are homeowners, combination dwelling and personal umbrella. The commercial offerings are business owner policy, specialty contractors, commercial auto, commercial multiple peril, other liability, fire, workers compensation and commercial umbrella.

The Company Maryland underwriting began in December of 2005. The Company offers all of the above products other than commercial multiple peril and workers compensation. The commercial multiple perils are in the developmental stage.

All underwriting, accounting and administrative business is conducted from the Company's office located at 125 West Broadway, Salem, New Jersey 08079. The company employs approximately 44 full and part time employees.

The Company has approximately 197 New Jersey agents and Maryland agents and all marketing efforts are directed through its agency force.

A summary of gross direct premiums written over the past three years is summarized below:

<u>Year</u>	<u>Gross Direct Premiums Written</u>
2007	\$38,988,456
2008	\$35,770,326
2009	\$34,697,216

Gross direct premiums written in 2009 were allocated among the following lines of business:

<u>Line of Business Written</u>	<u>Gross Direct Premiums Written</u>
Fire	1,959,867
Allied Lines	1,038,054
Homeowners Multiple Peril	18,825,456
Commercial Multiple Peril	6,357,397
Inland Marine	359,521
Workers Compensation	1,555,386
Other Liability-Occurrence	2,264,003
Products Liability-Occurrence	23,014
Commercial Auto Liability	1,622,583
Auto Physical Damage	282,960
Burglary and Theft	1,298
Boiler and Machinery	407,677

Farmers Mutual Fire Insurance Company of Salem County maintains various service agreements with vendors who are not affiliated with the Company. These include the following:

- Non Custody Investment Agency Agreement - This agreement, dated September 1, 1993, between Farmers Mutual Fire Insurance Company and Wilmington Trust Company where the Company has transferred their securities to a financial institution of New Jersey but the Company retains the investment management services of Wilmington Trust Company.
- Master (Claims Handling for Commercial Auto LOB) Service Agreement - This agreement, entered into on October 27, 2005, outlines the business arrangement between the Company and Claims Management Resources, LLC. (CMR), a Pennsylvania corporation, with providing certain services with respect to the claims handling of commercial auto insurance claims. Under the terms of this agreement, CMR agrees to provide full claims handling for the commercial auto LOB as outlined within the agreement to the insurer.

- **System and Program Purchase Agreement** - This agreement, dated August 7, 2006, between Farmers Mutual Fire Insurance Company of Salem County and Creditron Corporation allows for the Company to use the Creditron Scanning System to issue checks.
- **Investment Advisory Agreement** - This agreement, entered into on July 28, 2008, between Farmers Mutual Fire Insurance Company of Salem County and Confluence Investment Management LLC maintains an investment advisory agreement by the Company with Confluence Investment Management LLC. In this agreement, the Company requests that Confluence Investment Management LLC to act as investment advisor as to the portfolios of Large Cap Value and Equity Income Fund held by the Company.
- **Private Advisor Agreement** - This agreement is between Confluence Investment Management LLC, Wachovia Securities, LLC and Farmers Mutual Fire Insurance Company of Salem County. This agreement allows Confluence Investment Management LLC to provide investment management services to Wachovia Securities, LLC on behalf of the Company.
- **Software License Agreement** – This agreement between Sungard iWorks LLC and the Company allows the Company to use the iWorks Investment Accounting software. This software is used by the Company to perform various accounting functions over their investments; including the calculations of investment income, accrued income, and amortization/accretion.
- **Co-Marketing Agreement with Palisades Insurance Group** – This co-marketing agreement allows Farmers of Salem and Palisades Insurance Group to provide New Jersey residents additional savings on their homeowners and auto insurance policies. This co-marketing agreement allows a 10% discount on the policyholder's homeowner premiums from Farmers of Salem and a 13% discount on the policyholder's auto premiums from Palisades Insurance Group.
- **Recovery Services Agreement** - This agreement, entered into on April 16, 2010 between Recovery Networks, Inc. and Farmers Mutual Fire Insurance Company of Salem County, allows for the Backup Net Services of Recovery Networks, Inc. of a 1.4 TB server for Live Backup Application. This agreement also allows for the Recovery Networks, Inc. On Call restoration service of the Company's Data and also provides a Disaster Recovery Off-Site Office Facility.

The Company conducts its everyday business operations from its statutory home and main administrative office located at 125 West Broadway, Salem, New Jersey 08079. These operations include underwriting and claims handling, among others. The Company uses independent adjusters to physically inspect all claims for property damage, with few exceptions. The independent adjusters, in turn, report to an in-house staff adjuster, who reviews their report to confirm that coverage is being properly interpreted, and a pro-active approach is taken to settle the claim. Each in-house staff adjuster has an authority limit. All payments over the adjuster's authority level are approved by management. In addition, if the claim reserve is over their authority level; or if the claim involves unusual circumstances; or if suit is filed; a manager reviews the file regularly to confirm that proper procedures are being followed. All denial letters are also approved by management, to ensure that claims are not being improperly denied.

The Company also uses independent adjusters to investigate all liability claims, with few exceptions. The independent adjusters will report to an in-house adjuster, who ensures proper coverage interpretation, and directs the course of the investigation when necessary. Once the investigation is complete, the in-house adjuster takes back handling of the file, to either defend, or settle, the claim.

All claim payments are approved by management, before checks are issued. Security procedures have been put in place that limits access to the check entering and printing functions, and to ensure an audit trail.

The Company uses a Third Party Administrator (TPA) called Claims Management Resources, LLC (CMR) to handle all Commercial Auto claims and all Maryland claims. The Company has real time access to the claim files through the Company's accounting information system (SCIPS), as the TPA uses the same system to set up claims, enter reserves, process check requests, and enter notes on the file. The TPA's access is limited to the Commercial Auto and Maryland claims that the TPA are handling. The TPA does not have access to the files handled directly by the Company, or by the Company's independent adjusters on the Company's behalf. However, both the Claims and Underwriting Departments at the Company have access to the claim information in the TPA's claim files. Management also audits the files handled by the TPA, for compliance with the Company's claims handling procedures, and the Unfair Claims Act.

Although the TPA enters check requests, the checks are then printed out of the Company's main office, which allows the Company to audit payments and maintain control over the financial end of the claim. The files being handled by the TPA are returned regularly to the Company's main office, once they have been closed for six months. The complete file is then scanned into the Company's document management system (Image Right), for unlimited paperless storage.

Workers Compensation claims are handled by PMA Management Group (PMAMG) through a third party claims administrative services agreement. PMAMG will send monthly reports to the Company detailing the activity on the workers compensation claims for the month. This activity is inputted into the SCIPS system. Guy Carpenter, the Company's reinsurance intermediary, handles auditing of the workers compensation claims.

CORPORATE RECORDS

The Company's By-laws stipulate that the annual meeting of the policyholders of the Corporation shall be held on the first Thursday in March in each year, at an hour to be named in the notice of the meeting. Special meetings for any purpose or purposes may be called by the Chairman or a Vice Chairman, or by resolution of the Board of Directors, and may be held at such place, within or without the State of New Jersey, as deemed appropriate. Directors shall hold regular meetings at least four times a year and there shall be at least one regular meeting during each calendar quarter.

The business of the Company is governed by the Board of Directors. The Board will consist of a number of directors of not less than seven nor more than eleven, each of whom must be a

policyholder of the Corporation. The number of Directors to be elected at the annual meeting shall be established by the Board of Directors by resolution adopted by a majority vote of all existing Directors, not later than 60 days prior to the annual meeting. The term of office of Directors shall be three years or until their successors have been elected. A majority of the whole number of Directors shall constitute a quorum for the transaction of business and a majority vote of the quorum shall be sufficient to take Board action. The Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each Committee shall consist of two or more Directors of the Corporation.

A review of the minutes of the Board of Directors indicated that transactions and events of the Company overall are adequately approved and supported.

MANAGEMENT AND CONTROL

Annual policyholder meetings are held on the first Thursday in March, each year. Directors are appointed at this time to serve three year terms or until their successors are elected. A majority of the whole number of Directors shall constitute a quorum for the transactions of the business.

The By-laws provide that the affairs, property and concerns of the Corporation shall be managed and conducted by a Board of not less than seven nor more than eleven directors, each of whom must be a policyholder of the Corporation.

The following were the Directors of the Company as of December 31, 2009:

<u>Director</u>	<u>Address</u>	<u>Occupation</u>
William C. DeCinque	691 Route 45 Salem, NJ 08079	Retired Insurance Company Executive
John D. Burke	43 Bittenwood Dr. Pilesgrove, NJ 08079	Title Agency President
William C. Horner	67 Market Street Salem, NJ 08079	Lawyer
David Alan Culver	84 Pointers-Auburn Rd. Salem, NJ 08079	Consultant
Robert R. McHarness	31 Kingsberry Lane Woodstown, NJ 08098	Retired, Banker

<u>Director</u>	<u>Address</u>	<u>Occupation</u>
Robert Swartz	P.O. Box 548 Egg Harbor Twp., NJ 08234	Owner, Swartz & Co., CPA's
Lee C. Williams, Jr.	319 Sharptown-Auburn Rd. Pilesgrove, NJ 08098	President - South Jersey Farmers Exchange

At the March 5, 2009 organizational meeting, the following officers were elected and serving at December 31, 2009:

William C. DeCinque	Chairman of the Board
John D. Burke	Vice Chairman
Kent W. Jones	President
James R. Doherty	Sr. Vice-President and Treasurer
Norman A. Falin	Vice-President - Marketing
Georgienna Anderson	Vice President-Underwriting
Laurie Konzelmann	Vice-President - Claims
William C. Horner	Secretary
Jeanette M. Gerlack	Assistant Secretary

All directors were outside directors, therefore, the Company was determined to be in compliance with N.J.S.A. 17:27A-4(d)(3). All transactions, including the approval of investments, were approved by the Board of Directors. The previous examination report was read and approved by the Board on September 24, 2008.

Committees

The by-laws state that the Chairman of the Board shall appoint an Executive Committee and may appoint such other committees as is deemed expedient. Each committee shall consist of two or more directors of the Corporation. The following Committees were appointed and serving at December 31, 2009:

Executive Committee

William C. DeCinque, Chairman
William C. Horner
John D. Burke

Budget and Auditing Committee

Robert R. McHarness, Chairman
Robert E. Swartz
John D. Burke

Planning Committee

William C. Horner, Chairman

Lee C. Williams, Jr.

David Alan Culver

Finance/Investment Committee

Robert E. Swartz, Chairman

Robert R. McHarness

David Alan Culver

Employee Policy, Compensation & Benefits Committee

John D. Burke, Chairman

William C. Horner

Lee C. Williams, Jr.

The Executive Committee recommends the perks of the management, evaluates the management and proposes the nominations to the Board of Directors.

The Budget and Audit Committee recommends appointment of the independent auditor, meets with the independent auditor, reviews proposed budgets with management, along with other duties in accordance with N.J.S.A. 17:27A-4(d)(4).

The Planning Committee is responsible for reviewing the status of the Company within the industry and for recommending strategic initiatives to improve its competitive position.

The Finance/Investment Committee is responsible for the prudent management and investment of Company assets.

Corporate Governance

The Company has adopted an ERM framework for proactively addressing and mitigating risks, including prospective business risks. Exhibit M of the NAIC Handbook was utilized as guidance for assessing corporate governance. Overall, it was determined that the Company's corporate governance structure is effective.

Management has an effective approach to identifying and mitigating risks across the Company, including prospective business risks. The Company deals proactively with its areas of risk and is knowledgeable about mitigation strategies. Management discusses the significant issues and reacts to changes in the environment with a clear commitment to address risk factors and manage the business accordingly. The Company's overall risk management process is well-defined and takes a proactive approach to identifying, tracking, and dealing with current significant and emerging risk factors.

The Company does not have an Internal Audit Department due to the Company's size. Also because of the Company's size, the Company has not established an effective set of internal control procedures which would provide for a clear segregation of duties. Therefore, it was

determined by this examination that the examination team would not evaluate internal controls of the Company.

REINSURANCE

The Company's reinsurance program is managed through Guy Carpenter and Company, Inc. of Philadelphia, PA., a licensed reinsurance intermediary pursuant to N.J.S.A. 17:22E-2.

Each year a reinsurance program is offered that either results in the updating of previously executed contracts or new contracts being issued.

The Company was the named party to these reinsurance treaties in effect at December 31, 2009:

Casualty (Liability) Program

- **Casualty First Excess of Loss Reinsurance**

Covering: Workers' Compensation and Employers Liability

Coverage: \$800,000 in excess of \$200,000 ultimate net loss, each loss occurrence.

Covering: In respect of all other business reinsured hereunder:

Coverage: \$800,000 in excess of \$200,000 ultimate net loss, each loss occurrence.

- **Casualty Second Excess of Loss Reinsurance**

Covering: All Casualty Lines

Coverage: \$2,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence.

Umbrella Program

- **Umbrella Facultative**

Covering: Personal and Farm.

Coverage: 95% Quota Share of first \$1,000,000 of loss. 100% of \$4,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence.

Property Program

- **First Property Per Risk Excess of Loss Reinsurance**

Covering: All business classified by the Company as Property.

Coverage: \$300,000 in excess of \$200,000 ultimate net loss, each loss, each risk.

Occurrence

Limit: \$900,000 any one loss occurrence

- **Second Property Per Risk Excess of Loss Reinsurance**

Covering: All business classified by the Company as Property.

Coverage: \$500,000 in excess of \$500,000 ultimate net loss, each loss, each risk.

Occurrence

Limit: \$1,500,000 any one loss occurrence.

- **Third Property Per Risk Excess of Loss Reinsurance**

Covering: All business classified by the Company as Property.

Coverage: \$3,000,000 in excess of \$1,000,000 ultimate net loss, each loss, each risk.

Occurrence

Limit: \$9,000,000 any one loss occurrence.

- **Property Facultative Binding Authority**

Covering: All business classified by the Company as Property.

Coverage: Cessions to this Contract shall be limited to an amount equal to 40 times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of \$50,000 and to a maximum cession hereunder of \$2,000,000 on anyone risk covered hereunder. However, if the cession is greater than \$250,000, the maximum cession as respects anyone animal shall not exceed \$250,000.

- **Property Catastrophe Excess of Loss**

Covering: All business classified by the Company as Property.

<u>Layer</u>	<u>Coverage</u>
1st	100% of \$1,000,000 in excess of \$1,000,000
2nd	100% of \$3,000,000 in excess of \$2,000,000
3rd	100% of \$5,000,000 in excess of \$5,000,000
4th	100% of \$10,000,000 in excess of \$10,000,000
5th	100% of \$15,000,000 in excess of \$20,000,000

- **Equipment Breakdown Quota Share**

Covering: Policies classified by the Company as Equipment Breakdown, including such coverage when written as part of a package Policy.

Coverage: 100% Quota Share of all business classified by the Company as Equipment Breakdown.

Farmers Mutual Fire Insurance Company of Salem County and/or any other subsidiaries or members of the Salem Group is a Member of the Garden State Reinsurance Association (“GSRA”). GSRA other members consist of the following:

Cumberland Insurance Group

- **Cumberland Mutual Fire Insurance Company**
- **Cumberland Insurance Company, Inc. and/or any other subsidiaries or members of the Cumberland Insurance Group.**

The Farmers Insurance Company of Flemington and/or any other subsidiaries that are or may hereafter come under the management of the Company.

FMI Companies

- **The Franklin Mutual Insurance Company**
- **FMI Insurance Company**
- **Fidelity Mohawk Insurance Company and/or any other subsidiaries or members of the FMI Companies.**

Each of the above mentioned members of the GSRA are named reinsured on the First Workers Compensation Excess of Loss Reinsurance Contract and the Second and Third Workers Compensation Excess of Loss Reinsurance Contract. The two agreements are summarized as follows:

Covering: Workers’ Compensation and Employers’ Liability (including Workers’ Compensation and Employers’ Liability written in conjunction with Homeowners Policies)

Coverage:

1st Layer – The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$1,000,000 each Loss Occurrence, subject to a limit of liability to the Reinsurer of \$4,000,000 each Loss Occurrence. The maximum Ultimate Net Loss, any one Loss Occurrence, from Employer's Liability is \$1,000,000 or so deemed.

Coverage provided is subject to an aggregate limit of \$4,000,000, as respects all losses resulting from Acts of Terrorism.

2nd Layer – The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$5,000,000 each Loss Occurrence, subject to a limit of liability to the Reinsurer of \$5,000,000 each Loss Occurrence.

3rd Layer - The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$10,000,000 each Loss Occurrence, subject to a limit of liability to the Reinsurer of \$10,000,000 each Loss Occurrence.

It was determined by this examination that the First Workers Compensation Excess of Loss and the Second and Third Workers Compensation Excess of Loss Reinsurance Contracts did not separate retention, limits or reinstatements for each member of the Garden State Reinsurance Association ("GSRA") who are all named as the Reinsured on both contracts.

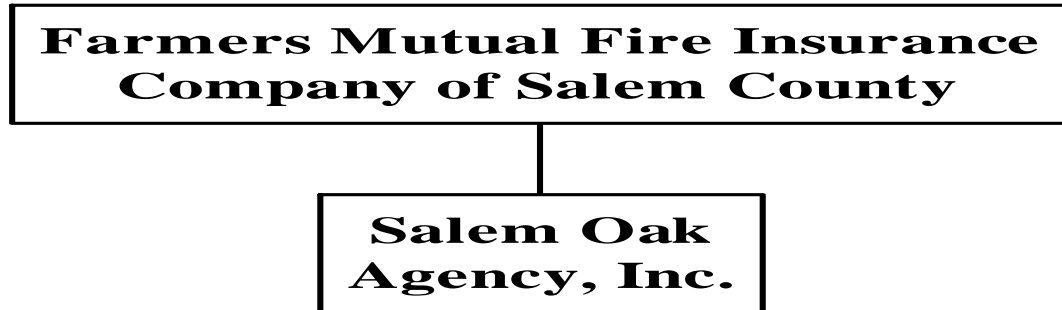
It is recommended by this examination that the Company create a Reinsurance Allocation Agreement with its Members of the Garden State Reinsurance Association on all reinsurance contracts in which the members of the GSRA are collectively referred to as the "Company". The agreement should state that various allocations be fair and equitable in dividing reinsurance recoveries among the GSRA members for the reinsurance contracts so GSRA can be in compliance with SSAP No. 62R, paragraph 9 - Reinsurance Agreements with Multiple Cedents.

The Company is also a member of the following mandatory pools:

1. National Council on Compensation Insurance
2. New Jersey Fair Plan
3. AIPSO/NJ CAIP

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

As at December 31, 2009, the Company was a member of an Insurance Holding Company System in accordance with N.J.S.A. 17:27A. An organizational chart of this system follows:



A review indicated that the holding company filings were made for the period under examination by Farmers Mutual Fire Insurance Company of Salem County as registrant to the requirements and standards under N.J.S.A. 17:27A-3.

INTER-COMPANY AGREEMENTS

The Company had the following Inter-Company Agreements as of December 31, 2009:

Federal Income Tax Sharing Agreement

The agreement is between Farmers Mutual Fire Insurance Company of Salem County (Farmers) and its subsidiary Salem Oak Agency, Inc. (subsidiaries) dated September 1, 2008.

This Agreement supersedes the 2005 Tax Allocation Agreement between Farmers Mutual Fire Insurance Company of Salem County and its subsidiaries, Salem Financial Corporation and Salem Oak Agency, Inc.

The Agreement defines the method by which the federal income tax liability is to be allocated between the parties and the manner in which such allocated liability will be paid. The allocation of taxes is based upon separate tax returns with current credit for net losses. Payments with respects to such taxable year shall be made as follows: At the end of each taxable year to which Farmers files their Consolidated return which includes all subsidiaries, a) it is determined that the actual Separate Tax Liability or Additional Amount for such taxable period exceeds the aggregate amount of any deposits paid for that tax year, then such excess shall be paid on or before the later of (i) the 15th day of the third month after the end of such taxable period and (ii) the date on which such excess is finally determined, which shall be not later than 60 days after the Consolidated Return for such taxable period is filed b) it is determined that the actual deposit paid for such taxable period exceeds the actual Separate Tax Liability or Additional Amount for such taxable period, then such excess shall be paid on or before the later of (i) the 15th day of the third month after the end of such

taxable period and (ii) the date on which such excess is finally determined, which shall be not later than 60 days after the Consolidated Return for such taxable period is filed.

Under no circumstances will any of the insurance subsidiaries pay more tax or receive less of a refund on a consolidated basis than it would pay or receive on a separate company basis.

Agreement between Farmers and Salem Oak Agency, Inc.:

Salem Oak Agency Inc. is designated as an "Agent" and Farmers as "Company". The operations shall be conducted by the personnel and using the facilities of the Company. The Fixed Costs to cover equipment and office space will be \$1,500 per month. The Variable cost to cover the Company personnel will be based on the activities. All direct expenses of the Agent paid by the Company will be billed by the Company. Nothing said above will create a relationship of employer and employee.

POLICY ON CONFLICT OF INTEREST

The Company has a questionnaire regarding conflict of interest in which the officers and directors are informally required to disclose any possible conflict. This questionnaire is to be completed each year before the first Board of Directors meeting. The Company does not have a formal policy to complete conflict of interest questionnaires. Upon review of the conflict of interest questionnaire, during the examination period, it was determined that the Company had no conflicts of interest.

EMPLOYEE WELFARE AND PENSION PLANS

The Company offers the following plans to eligible full time employees:

Health Insurance - The Company offers health insurance for all full-time employees.

Dental Insurance - After six (6) months of employment, the Company currently provides and pays the employee's premium for a dental program.

Long Term Disability - The Company provides a long-term disability plan that begins after 180 days of disability.

Life Insurance - The Company provides for all full-time employees and at no cost to the employee, life insurance in the amount of 1-times the employees annual salary.

Pension Plan - The Company provides at no cost to the employee, pension benefits under a Simplified Employee Pension Plan (SEPP) as allowed by the Federal Government. The employee is eligible in their 3rd year of employment with the Company. The employee must be 21 years of age and earn in excess of \$300 per year. At the end of each calendar year, the company issues a check made payable to an eligible depository selected by the employee. The check will be a percentage of the employee salary as determined by the Board of Directors each year. The pension plan may be terminated at the discretion of the Board of Directors.

Temporary Disability Benefits – The Company offers this plan to both full time and part-time employees. The Company has chosen to cover its employees under a private plan approved by the State of New Jersey. The only difference between the full time plan and the part-time plan is that the Company does not pay any additional monies to part time employees.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company maintains insurance coverage designed to protect its assets from losses arising out of various risks. The following summary shows the types and amounts of coverage that were in force as at December 31, 2009:

Business Property and Loss of Business Income:

A. Buildings - Limits of Liability for 125 West Broadway - \$ 1,138,320
Limits of Liability for 127 West Broadway - \$ 310,767
\$1,000 Deductible

B. Business Personal Property - Limits of Liability for 125 West Broadway - \$412,456
Limits of Liability for 127 West Broadway - \$ 25,000
\$1,000 Deductible

C. Loss of Business Income - Limits of Liability - Included

D. Money and Securities - On Premises - Limits of Liability - \$10,000
Money and Securities - Off Premises - Limits of Liability - \$ 2,000

Business Liability

\$1,000,000 Each Occurrence Limit
\$ 5,000 Medical Payments
\$2,000,000 General Aggregate Totals

In addition to the Business Property and Loss of Business Income and the Business Liability Coverage, the principal insurance coverages in which the Company is a named insured as at December 31, 2009 include the following:

Directors and Officers Liability
Commercial Automobile Liability
Workers Compensation and Employers Liability
Commercial Umbrella Liability

At December 31, 2009, the Company, along with its affiliate Salem Oak Agency Inc., are named insured's on a Financial Institution Bond underwritten by the Federal Insurance Company. The bond provides the Company, along with its affiliate Salem Oak

Agency Inc., a single loss limit of liability of \$500,000 with a single loss deductible of \$25,000 for various risks covered under the policy. The amount of fidelity coverage carried on this policy meets the suggested minimum amount of fidelity coverage as measured on a group basis using the NAIC's formula and exposure index.

POLICY FORMS AND UNDERWRITING PRACTICES

The Company has policy forms for the following programs:

Personal Lines Program
Business Owners Program
Commercial Property Program
Commercial Liability Program
Commercial Auto Program
Umbrella Liability Program

The Company uses Mutual Service Office policy forms.

The Company has underwriting manuals for each line of business that the Company writes. The underwriting guidelines of the Company are tailored for each line of business.

ACCOUNTS AND RECORDS

The Company uses SunGard software to prepare the general ledger entries and trial balance. Sungard became the new vendor for the Company in August of 2010.

The Company's Premium and Loss systems are recorded in the Small Company Insurance Processing System (SCIPS) processing system.

Premium receipts are recorded through the SCIPS system. All checks (except app deposit checks) are scanned through the Company check scanning system called Creditron. An uploaded file from Creditron is created to post to the individual accounts in SCIPS. Payments are also accepted online by credit card or ACH. These files also uploaded into SCIPS. All payments for the insured's policies are recorded against the Accounts Receivable account in the General Ledger.

Interest receipts are deposited to the appropriate general ledger accounts through SunGard software.

Checks are issued on all claims in compliance with the Unfair Claims Practices Act. Pictures of damage are required for all property files. Proof of Loss is required for property claim payments over \$5,000. Pictures are required for liability files as appropriate, which is inclusive of almost every file. A Release is obtained for almost all liability claims. However, on rare occasion, depending on the scope and nature of the liability claim, the release requirement is waived.

All settlements reached with insured's or claimants by the Company's independent adjusters are subject to company approval. All loss payment requests submitted by independent adjusters are reviewed by the Claims Examiner to confirm the settlement is appropriate based on coverage available and scope of damage. All Claims Examiners have authority levels. Any payment request that exceeds their individual authority must be reviewed with the Claims Vice President before issuance.

Payments to adjusters for expenses require an invoice. A copy of the adjuster invoice is maintained in the claim file as documentation. Farmers Mutual Fire Insurance Company of Salem County requires each adjuster to include an itemized invoice which the Company can use to evaluate the expenses charged on all billings other than the flat fee schedule.

The Claims Examiner writes up the payment request, and is responsible to ensure the reserve is adequate. The Company's Claims Clerks, enter the checks into the computer system. If the reserve on the file is not adequate, the system generates a message that must be reviewed by the Claims Examiner or Claims VP, before they can proceed.

The Company's Claims Vice President and Claims Specialist are the only members of the Claims Department who can approve checks for release in the computer system. The physical payment request is reviewed against the amount entered in the computer system to ensure accuracy. Spot checks of the claims files are done during the approval process. All claim checks require two signatures.

A copy of the payment request and printed check is scanned into the claim file for documentation.

Commissions to the Company's agents are paid monthly. Commissions are paid based on the effective date of the written premium. Before commissions are paid to individual agents, the written premium for the month is reconciled against the agent's total written premium shown on their commission statements. Commission checks are approved and issued in the Accounting Department.

ADVERTISING AND SALES MATERIAL

A review of the Company's advertising and sales materials disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

TREATMENT OF POLICYHOLDERS

The Company's complaint log for complaints filed with the New Jersey Department of Banking and Insurance for the years 2007 through 2009 were reviewed. The review of these complaint logs determined that the treatment of complainants, the record keeping of complaints and the response time by the Company was in compliance with N.J.S.A. 17:29B-4(10) (Complaint Handling Procedures).

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. It was recommended in the prior two examination reports that the Company formalize and test a business continuity plan.

Farmers Mutual Fire Insurance Company of Salem County has not complied with this recommendation. The Company has not created a formal, comprehensive business continuity plan. It is again recommended, as was in the prior two examination reports, that the Company formalize and test a comprehensive business continuity plan.

GROWTH OF COMPANY

The net premiums written to surplus as regards policyholders ratios for the period under examination are found below:

<u>Year Ending</u>	<u>Net Premiums Written</u>	<u>Surplus as Regards Policyholders</u>	<u>Ratio</u>
2007	31,258,814	31,382,905	0.996
2008	28,776,071	32,154,036	0.895
2009	27,386,777	38,662,805	0.708

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet as at December 31, 2009

Exhibit B Summary of Operations for the Three-Year Period Ending
December 31, 2009

Exhibit C Capital and Surplus Account for the Three-Year Period Ending
December 31, 2009

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
BALANCE SHEET AT DECEMBER 31, 2009

	Current Examination at 12/31/09	Balance per Company at 12/31/09	Examination Change	Note Number
<u>Assets</u>				
Bonds and Stocks	\$81,603,937	\$81,603,937	\$0	1
Real Estate:				
Properties Occupied by the Company	508,308	508,308	0	
Properties Held for the Production of Income	124,584	124,584	0	
Cash	6,309,043	6,309,043	0	
Investment Income Due and Accrued	967,530	967,530	0	
Premiums and Considerations:				
In Course of Collection	403,774	403,774	0	
Booked but Deferred and Not Yet Due	4,168,922	4,168,922	0	
Reinsurance:				
Amounts Recoverable from Reinsurers	240,464	240,464	0	
Current Federal and Foreign Income Taxes Recoverable	56,967	56,967	0	
Net Deferred Tax Asset	1,397,792	1,397,792	0	
Guaranty Funds Receivable or on Deposit	221,135	221,135	0	
Electronic Data Processing Equipment and Software	51,667	51,667	0	
Aggregate Write-ins for other than Invested Assets	<u>350,961</u>	<u>350,961</u>	<u>0</u>	
Total Admitted Assets	<u>\$96,405,084</u>	<u>\$96,405,084</u>	<u>\$0</u>	
<u>Liabilities</u>				
Losses and Loss Adjustment Expenses	\$33,861,544	\$33,861,544	\$0	2
Commissions Payable, contingent commissions and other similar charges	1,431,817	1,431,817	0	
Other Expenses	556,217	556,217	0	
Taxes, Licenses and Fees	263,355	263,355	0	
Unearned Premiums	18,047,340	18,047,340	0	
Advance Premium	565,607	565,607	0	
Ceded Reinsurance Premiums Payable	2,844,547	2,844,547	0	
Amounts Withheld or Retained by Company	<u>171,852</u>	<u>171,852</u>	<u>0</u>	
Total Liabilities	<u>\$57,742,279</u>	<u>\$57,742,279</u>	<u>\$0</u>	
<u>Surplus and Other Funds</u>				
Surplus Notes	\$4,000,000	\$4,000,000	\$0	
Unassigned Funds (Surplus)	<u>34,662,805</u>	<u>34,662,805</u>	<u>0</u>	
Surplus as Regards Policyholders	<u>\$38,662,805</u>	<u>\$38,662,805</u>	<u>\$0</u>	3
Total Liabilities, Surplus and Other Funds	<u>\$96,405,084</u>	<u>\$96,405,084</u>	<u>\$0</u>	

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
SUMMARY OF OPERATIONS FOR THE
THREE-YEAR PERIOD ENDING DECEMBER 31, 2009

<u>UNDERWRITING INCOME</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Premiums Earned	\$27,861,616	\$30,445,043	\$33,476,908
Deductions:			
Losses Incurred	\$12,516,101	\$13,859,336	\$16,434,863
Loss Expenses Incurred	2,932,293	2,840,522	3,523,258
Other Underwriting Expenses Incurred	10,388,583	10,574,643	11,736,330
Aggregate Write-ins for Underwriting Deductions	0	0	0
Total Underwriting Deductions	\$25,836,977	\$27,274,501	\$31,694,451
Net Underwriting Gain or (Loss)	\$2,024,639	\$3,170,542	\$1,782,457
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	\$2,697,085	\$2,724,109	\$2,801,780
Net Realized Capital Gains or (Losses)	346,557	(1,833,826)	94,014
Net Investment Gain or (Loss)	\$3,043,642	\$890,283	\$2,895,794
<u>OTHER INCOME</u>			
Net Gain or (Loss) from Agents' Balances Charged Off	(\$81,128)	(\$131,417)	(\$83,657)
Finance and Service Charges not Included in Premium	346,550	408,012	425,661
Miscellaneous Income	0	0	0
Total Other Income	\$265,422	\$276,595	\$342,004
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	\$5,333,703	\$4,337,420	\$5,020,255
Dividends to Policyholders	0	0	0
Net Income Before Federal Income Taxes	\$5,333,703	\$4,337,420	\$5,020,255
Federal Income Taxes Incurred	1,556,693	1,850,916	1,346,411
Net Income	\$3,777,010	\$2,486,504	\$3,673,844

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY
CAPITAL AND SURPLUS ACCOUNT FOR
THREE-YEAR PERIOD ENDING DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>
NET INCOME	<u>\$3,777,010</u>	<u>\$2,486,504</u>	<u>\$3,673,844</u>
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>			
Change in Net Unrealized Capital Gains or (-) Losses	\$2,152,547	(\$1,568,070)	(\$39,865)
Change in Net Deferred Income Tax	129,147	82,721	(241,949)
Change in Nonadmitted Assets	450,065	(230,024)	(10,854)
Change in Provision for Reinsurance	0	0	0
Cumulative Effect change in Accounting Principles	0	0	0
Capital Changes:			
Paid In	0	0	0
Surplus Adjustments:			
Paid In	0	0	0
Dividends to Stockholders	0	0	0
Extraordinary Amounts of Taxes for Prior Years	0	0	0
Aggregate Write-in Gain or Loss in Surplus:			
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Surplus Gains or (-) Losses	\$2,731,759	(\$1,715,373)	(\$292,668)
Change in Surplus as Regards			
Policyholders for the Year	\$6,508,769	\$771,131	\$3,381,176
Surplus as Regards Policyholders			
December 31, Previous Year	<u>\$32,154,036</u>	<u>\$31,382,905</u>	<u>\$28,001,729</u>
Surplus as Regards Policyholders			
December 31, Current Year	<u><u>\$38,662,805</u></u>	<u><u>\$32,154,036</u></u>	<u><u>\$31,382,905</u></u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BONDS AND STOCKS

Farmers Mutual Fire Insurance Company of New Jersey reported an admitted asset for bonds and common stocks of \$63,587,218 and \$18,016,719, respectively at December 31, 2009. These amounts will be accepted as stated by this examination.

NOTE 2: LOSSES AND LOSS ADJUSTMENT EXPENSES

At December 31, 2009 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$ 33,861,544. A review of the gross and net reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled \$26,374,267.

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$7,487,277.

The examination performed reconciliations of case reserves and paid loss totals from annual statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's annual statement.

NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS

Surplus Note

At December 31, 2009, the Company reported a surplus note in the amount of \$4,000,000 which was approved by the New Jersey Department of Banking and Insurance Office of Solvency Regulation Division. This issuance of the surplus note was part of a pooled securities transaction arranged by FTN Financial and Keefe, Bruynette and Woods, Inc.

The surplus note is in compliance with SSAP No. 41 – Surplus Notes.

Unassigned Funds (Surplus)

The Company reported surplus as regards to policyholders at December 31, 2009 of \$38,662,805 which consisted of surplus note of \$4,000,000 and unassigned funds of \$34,662,805.

SUBSEQUENT EVENTS

Co-Marketing Agreement with IFA Insurance Company – In 2010, this co-marketing agreement between Farmers of Salem and IFA Insurance Company allows both companies to provide New Jersey residents additional savings on their homeowners and auto insurance policies. This co-marketing agreement allows a 10% discount on the policyholder's homeowner premiums from Farmers of Salem and a 10% discount on the policyholder's auto premiums from IFA Insurance Company.

SUMMARY OF EXAMINATION RECOMMENDATIONS

Reinsurance (pg. 17)

It is recommended by this examination that the Company create a Reinsurance Allocation Agreement with its Members of the Garden State Reinsurance Association on all reinsurance contracts in which the members of the GSRA are collectively referred to as the “Company”. The agreement should state that various allocations be fair and equitable in dividing reinsurance recoveries among the GSRA members for the reinsurance contracts so GSRA can be in compliance with SSAP No. 62R, paragraph 9 - Reinsurance Agreements with Multiple Cedents.

Continuity of Operations (pg. 23)

It is again recommended, as was in the prior two examination reports, that the Company formalize and test a comprehensive business continuity plan.

**STATEMENT BY NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE
PROPERTY AND CASUALTY ACTUARY**

Losses and Loss Adjustment Expenses findings in the 2009 financial condition examination report of Farmers Mutual Fire Insurance Company of Salem County are the responsibility of the Property and Casualty Actuarial Unit of the Office of Solvency Regulation of the New Jersey Department of Banking and Insurance.

**/S/
Boris Privman, MAAA, FCAS**

**State of New Jersey
County of Mercer**

Subscribed and sworn to before me, on this 8th day of March 2011.

**/S/
Donna M. Costigan
Notary Public of New Jersey**

My commission expires: 3/7/2012

CONCLUSION

A regular statutory financial condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Farmers Mutual Fire Insurance Company of Salem County's office in Salem, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully Submitted,

/S/

Vincent Kaighn, CFE
Examiner-in-Charge

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SALEM COUNTY

I, Vincent Kaighn, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2009 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

Vincent Kaighn
Supervising Insurance Examiner
New Jersey Department of Banking & Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 8th day of March 2011.

/S/

Donna M. Costigan
Notary Public of New Jersey

My commission expires: 3/7/2012